MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BFN2244 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

7 March 2016
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 5 pages (including front page) with **FOUR (4)** Questions only.

2. Answer **ALL** questions.

3. Write your answers in the Answer Booklet provided.

Question 1

a) Housing Construction Company (HCC) has agreed to build a housing project for the city of New York. On January 1st, 2014 the company and the city agreed on the following terms, the construction should take no more than 3 years, HCC would be paid a total of RM150,000,000 for the project; the RM150,000,000 would be paid: 3 payments of RM50,000,000 each at the end of year 2014, 2015 and 2016. HCC expects contractions costs to be RM50,000,000 in year 2014, RM50,000,000 in year 2015, and RM10,000,000 in year 2016.

(i) If HCC uses the completed contract method, what revenues and expenses would HCC recognize in year 2014, 2015, and 2016? **(5 marks)**

(ii) If HCC uses the percentage of completion method, what revenues and expenses would HCC recognize in year 2014, 2015, and 2016? **(6 marks)**

(iii) Show the balance on the construction-in-process account at the end of 2014, 2015, and 2016 (prior to the completion of the project) using both the completed contract and the percentage of completion methods? **(5 marks)**

b) Dialog Holding Group reported net income of RM 200,000 for the year ended 2016. The following is the group's additional items. Students are required to prepare the Statement of Comprehensive Income.

(i) The group purchased 10,000 CIMB Company share at RM10 per share at the middle of 2016. The investment is treated as "available for sales". The value of the shares is RM8 at the end of 2016.

(ii) The group purchased 1,000 RHB Company bond at RM100 per bond at the beginning of 2014. The investment is treated as "hold to maturity". The value of the bond is RM112 at the end of 2016. The maturity date of the bond is year 2020.

(iii) The group purchased 1,000 AMMB Company bond at RM100 per bond at the beginning of 2014. The investment is treated as "available for sales". The value of the bond is RM90 at the end of 2016. The maturity date of the bond is year 2020.
(9 marks)

(Total: 25 marks)

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Question 2

a) Recording of debt securities investment in accounting is strongly depend on the motive of debt securities investment. **Discuss** the effect of following change on Statement of Financial Position / Balance Sheet AND Statement of Comprehensive income / Income Statement.

(i) Held to maturity to Available for sale **(4 marks)**
(ii) Trading to Available for sale **(4 marks)**
(iii) Available for sale to Trading **(4 marks)**
(iv) Available for sale to Held to maturity **(4 marks)**

b) Wilde Corporation owns 30% of the outstanding stock of Bernie Inc. Bernie recorded net income of RM10,000,000 and paid dividends of RM3,000,00 in 2016. For each of the following ratios, state the effect (higher, lower or no effect) that the use of the equity method would have on Wilde's financial ratios compared to the use of the cost method in 2016. Explain your answers.

(i) Gross margin
(ii) Total Asset turnover

(9 marks)

(Total: 25 marks)

Question 3

a)

JEM Company's statement of financial position for 2014 and 2015		
	2015	2014
Assets		
Cash and cash equivalents	30,500	10,000
Account Receivable (net)	64,500	51,000
Inventory	100,000	115,000
Equipment	55,000	30,000
Accumulated depreciation –Equipment	(21,500)	14,000
Total Assets	**228,500**	**192,000**
Liabilities and Stockholders' equity		
Accounts Payable	52,500	46,000
Long term notes payable	70,000	50,000
Capital stock	60,000	60,000
Retained earnings	46,000	36,000
Liabilities and Stockholders' equity	**228,500**	**192,000**

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The following additional information is available: net income for the year 2015 (as reported on the income statement) was RM50,000; dividends of RM40,000 were declared and paid; and equipment that cost RM8,000 and had a book value of RM1,000 was sold during the year for RM2,500.
Based on the information provided, answer the following:

(i) What was cash provided by operations? **(10 marks)**
(ii) What was cash provided by investing activity? **(4 marks)**
(iii) How much was cash provided by financing activity? **(4 marks)**
(iv) What is the total change in cash for 2015? **(2 marks)**

b) Is it possible to have a positive net income and negative cash flow from operations? If your answer is no, explain fully. If your answer is yes, provide two examples when one might find this. **(5 marks)**

(Total: 25 marks)

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Question 4

a) Below are selected ratios for Manufacturers Corporation. Use this information answer the following questions.

		Year 1	Year 2	Year 3
1.	Net operating asset turnover	1.4	1.31	1.25
2.	Inventory turnover	5.6	5.0	4.6
3.	Accounts receivable turnover	12.1	11.9	12.1
4.	Fixed assets turnover	1.3	1.29	1.29
5.	Net operating profit margin	4.5%	4.6%	4.8%
6.	Net operating assets/equity	2.10	1.98	1.77
7.	EBIT/revenues	8.9%	8.6%	8.6%
8.	Gross margin	20.1%	19.9%	19.8%
9.	Income tax rate	35%	35%	35%

(i) Calculate return on net operating assets for all three years. Identify reasons for any changes. **(9 marks)**

(ii) Calculate return on equity for all three years. Comment on changes. **(6 marks)**

b) Indicate the effect of the following actions on cash levels and current ratio. Assume the company has a current ratio greater than one. Indicate whether the effect is to increase (I), decrease (D) or if it has no effect (NE). Consider each action independently of others.

Increased credit limits to maintain sales levels	Current Ratio	Cash
Convert to just in time inventory system		
Change from FIFO to weighted average inventory method (rising prices)		
Pay supplies more slowly		
Sell accounts receivable at face value		
Capitalize leases that were previously called operating leases		
Increase bad debt expense		
Shell equity		
Issue stock dividend		
Write down inventory		

(10 marks)

(Total: 25 marks)

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